Unitarian Universalist Common Endowment Fund

	Monthly Market Commentary for January 2015				
		Last Month	Last Year	Last 3 Years	Last 5 Years
Domestic Stocks	S&P 500	-3.0%	14.2	17.5	15.6
	S&P Mid Cap 400	-1.1%	10.9	17.0	17.0
	Russell 2000	-3.2%	4.4	15.3	15.7
Domestic Bonds	Barclays Aggregate	2.1%	6.6	3.1	4.6
	High Yield Bonds	0.7%	2.4	7.6	8.9
	91-Day T-Bills	0.0%	0.0	0.1	0.1
Non-US Stocks	MSCI EAFE (Net)	0.5%	-0.4	9.3	6.4
	MSCI Emerg Mkts (Net)	0.6%	5.2	0.6	3.1
Global Bonds	Citi World Gov't	-0.3%	-2.1	-1.5	1.6

Global equities were a mixed bag in January as investors responded to diverging monetary policies and the resulting potential for an uptick in volatility. The S&P 500 fell 3.0% on the month while emerging markets were modestly positive as the MSCI EM Index returned 0.6% International developed equities were buoyed by the European Central Bank's long-anticipated announcement of a quantitative easing program to the tune of €60 billion in bond purchases per month through at least September 2016. Most gains, however, were offset by a continued weakening of the euro relative to the US dollar as the MSCI EAFE Local Index returned 3.0% while its dollar denominated counterpart was up a modest 0.5%. Weakness in the euro was exacerbated by a surprise announcement by the Swiss National Bank to remove the Swiss franc's minimum exchange rate cap between the two currencies. In addition to the continued currency fluctuations, falling Treasury rates and low oil prices persisted as themes with exogenous effects in the first month of 2015. The 10 year Treasury rate, pushed lower in part by continued rate compression in Europe, closed the month at 1.64%—its lowest level since December 2012. This spurred gains across domestic fixed income assets as the Barclays US Aggregate Treasury Index was up 2.6%. Oil prices remained under pressure, even shrugging off instability in Yemen and the passing of King Abdullah in Saudi Arabia. Crude prices dropped to the mid-$40's per barrel, and the Bloomberg Commodity Index fell an additional 3.3%, bringing its trailing 10-year annualized loss to 2.3%.

In the past, we have commented on the potential effects of diverging policies of central banks on markets and, a month into 2015, we are seeing these begin to take shape. Sovereign debt yields across the world, and especially in Europe, have been pushed lower by muted growth prospects and accommodative monetary policies. Currencies have felt the impact acutely as the US dollar continues to strengthen and volatility within foreign exchange markets rises globally. A strong dollar should benefit consumers at home but may create headwinds for multinational companies doing business abroad. Similarly, the sliding price of oil has bolstered the budgets of US consumers, but persisting low oil prices could threaten the viability of smaller energy companies, many of which have played a role in improving the unemployment rate in the US. In addition, although domestic growth has been relatively strong, it has been somewhat erratic, as evidenced by a -2.1% annualized real growth rate in the first quarter of 2014, followed by quarterly estimates of 4.6%, 5.0% and 2.6%. While such growth rates are encouraging, the US stands alone among its developed peers, as the outcomes of monetary experimentation in Japan and Europe await.

Amid this uncertainty and in an investment landscape characterized by our expectations of low returns, we believe it is prudent for investors to employ a moderated approach to risk-taking while they wait patiently for opportunities to unfold. We continue to see pockets of opportunity in niche strategies in private markets, including Asia, direct lending and European real estate. We remain constructive on dynamically-oriented approaches with reduced constraints such as macro hedge funds and global asset allocation strategies. At the same time, we remain cautious on traditional credit markets, where we feel spreads and absolute yield levels do not provide adequate compensation for risk. We recommend investors remain committed to their diversified targets. They should also be nimble in their approach, ready to invest where returns justify the risk.

[Commentary courtesy of New England Pension Consultants (NEPC). UUCEF has a consultancy agreement with NEPC to assist in the oversight of investment managers and provide other advisory services to the UUCEF Investment Committee. NEPC® is an independent, full service investment consulting firm, providing asset allocation, manager search, performance evaluation and investment policy services to middle and upper market institutional investment programs.]